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ANALYSIS BRANCH

TO : Department of State

FROM : Amembassy CARACAS

DATE: 24 January 1968

SUBJECT : Recent Industrial and Commercial Developments in Guayana

REF : CERP, Section D; Embassy's A-513, January 10, 1968; Embassy's A-843, May 20, 1967

SUMMARY

On January 6-7, the reporting officer accompanied four U.S. Senators to Guayana in connection with the Senators' fact-finding tour of some countries in South America. This airgram relates certain economic facts and developments which came to light during the visit. The airgram is not intended as a substitute for the required "Report of Congressional Visit," submitted by the trip's control officer as A-513, January 10, 1968.

The major subjects covered are SIDOR, Orinoco Mining, ALCASA, Guri, and Ciudad Guayana in general.

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Siderurgica del Orinoco (SIDOR)

The four Senators--Gore, Miller, McIntyre, and Byrd (of West Virginia)--were given a rather optimistic view of SIDOR's problems by company officials. A U.S. engineer told them that "all" of SIDOR's present production, including seamless steel pipe, is now being sold. As an indication of the prosperous times, he mentioned current orders from Japan for 30,000 tons of pig ingots; from Argentina for 4,000 tons of slabs; and from Mexico for an unspecified amount of billets. Colombia, he added, is taking a good deal of seamless pipe for its oil

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exploration. He thinks that Venezuela's own exploratory plans will enable SIDOR easily to dispose of its current production of seamless pipe, which until recently was a drug on the market.

The engineer said that in 1967, for the first time in SIDOR's 7-year history, the enterprise climbed into the black on its operating budget (that is, not counting depreciation) and that in 1968 SIDOR expects to make a profit. He attributed the amelioration of SIDOR's situation in large part to the aggressive temperament of the firm's president, Argenis Gamboa, who came on only about a year ago. Among other things, he pointed out, Gamboa has cut employees from 7,000 to 5,876.

COMMENT: If it is true that SIDOR is selling everything it makes, then it is virtually certain that it has cut back output in some categories of steel. Capacity for seamless pipe is 300,000 tons a year. In tonnage that about equals the size of the surplus piled up by the end of 1966. According to the best information available to the Embassy, production of seamless pipe in 1967 was reduced to 186,000 tons.

The employment rolls, which list 12 U.S. citizens, are still far too long--by 2,000, some trade sources say. The company's most severe critics assert that SIDOR is little more than a welfare agency. The Senators were told that workers currently get Bs. 22 for an 8-hour day, plus free bus transportation to and from their homes, free medical services, a housing allowance, subsidized meals in the cafeteria, and a retirement plan.

Abnormally high maintenance costs remain one of the plant's biggest problems. Because the Guayana area is still relatively undeveloped, SIDOR has to be practically self-sufficient in plant repair and even in the fabrication of parts. SIDOR claims to have the biggest machine shop in the world, which is believable, since it seems to cover the area of at least 4 football fields. Aggravating the other cost-boosting factors mentioned above, the plant is small by U.S. or European standards, comparing perhaps with Johnstown. End of Comment

Senator Jack Miller of Iowa showed keen interest in the national origin of equipment. Officials told him that the 4 basic, 275-ton open-hearth Siemans-Martin furnaces are from Mesta of Pittsburgh. The 9 Tysland-Hole electric furnaces for making the pig iron are from Norway. The 7 locomotives are from GE, and the rolling stock is also U.S. in origin. Dies are from Italy, as is the entire pipe mill. In the latter, incidentally, a forging process is used rather than the piercing process as in the United States, so that this adds to SIDOR's costs.

All four Senators asked a company guide if SIDOR's steel could compete in price with the imported product and were told that it could not.

Senator McIntyre asked why Venezuelan coal could not be utilized in the furnaces and was informed that the sub-bituminous coal from the nearby Naricual deposits has too high a sulphur content, which would contaminate the steel, and has poor calorific qualities.

Senator Gore told Embassy officers that his superficial impression was that SIDOR's plant was poorly organized in physical layout.

COMMENT: Some other random facts which may be of interest are that SIDOR is currently using straight propane in its blast furnaces, and petroleum and natural gas as fuel in the furnaces. Its present upper limit for expansion of pipe is 24 inches.

Orinoco Mining Company

A wholly-owned subsidiary of U.S. Steel, Orinoco is currently mining about 14 million tons of iron ore (1967). The proved reserves are still set at 3 to 4 billion tons of iron ore, if the latter is defined as at least 55 percent ferrous content; but if ore of 25-30 percent content is included the figure would be hugely increased because the latter is "all over the place." A company spokesman said that although ore utilized from the Mesabi range in Minnesota is of this poorer quality, the state of technology in Venezuela is not such that the low-quality product could be exploited.

As the Department is aware, the company has plans for establishing a briqueting plant at Puerto Ordaz. To employ 250, the plant is expected by trade sources to cost between $50 and $90 million, although Orinoco itself is not giving out figures. The Government has an option to acquire up to 25 percent of the shares within 2 years. But should the Government exercise its option, according to company executives, the enterprise will still not be considered a "joint venture," since Orinoco will retain full control over management.

COMMENT: According to Joseph McEvoy, Public Relations Director of Orinoco Mining, who called on the Counselor for Economic and Commercial Affairs on January 8, contracts are now being drawn up for the construction of the plant and the supply of machinery. Ground will be broken about July of this year, at approximately the same time Creole commences the erection of its desulphurization plant at Amuay. Like the Creole project, Orinoco's briqueting establishment is expected to enter into operation about the middle of 1970. The installation will effect an enrichment of the present iron content of Orinoco's ore from an average of about 58 percent to 86 percent, mainly by reducing oxygen and water. McEvoy said that the process lowers mass by one-third, which might eventually allow Orinoco to export more ore to Europe where transportation costs are all-important. Initially the plant will produce 1 million tons of enriched ore for export annually, a small part of Orinoco's total exports of about 13 million in 1967. This enrichment process may in the future help Orinoco dispose of some of its cinder ore.

On January 16, a Ministry of Public Works official confirmed to the reporting officer that a new gas pipe line will be built from El Tigre, where gas deposits are located, to Puerto Ordaz. The supply of Orinoco Mining is a major consideration in the undertaking. The present pipe line has become insufficient for the needs of Guayana's development. End of Comment

The Senators found out that Orinoco employs 2,200--700 of whom work in the mines, 1200 in Puerto Ordaz (where the sifting and loading facilities for a minus-4-inch product are located) and 200 down river. Orinoco has 110 U.S. citizens on its rolls. Some two-thirds of the company's exports go to U.S. Steel in the United States, and the rest are sent to the U.K., Germany, Italy, and some to the world market.

Senator Miller confirmed that the ore-handling equipment is by Link-Belt of the U.S. He also learned that under contract with the Venezuelan Government, Orinoco itself is still maintaining the river channel of the Orinoco River, dredging it constantly in order to keep the 32 ft. minimum depth required for ocean-going transports. The freighters which Orinoco uses are chartered Liberian flag vessels, operated by another subsidiary of U.S. Steel based in the United States.

Aluminio del Caroni, S.A. (ALCASA)

Inaugurated in October 1967, Aluminio del Caroni, S.A. (ALCASA) is owned 50 percent by Reynolds International, Inc. and 50 percent by the Venezuelan Government. Using the Hall-Heroult process, the plant reduces alumina, imported mostly from Corpus Christi, Texas and Jamaica, in 70 electrolytic cells. At present ALCASA produces only ingots, in bars of 22.5 kg., at an annual rate of 10,000 tons, all for domestic consumption. By the beginning of 1969, however, a second line of 70 additional cells will be functional to contribute to a total annual production of 22,500 tons. This should strengthen ALCASA's present claim of being the largest aluminum plant in South America.

Because ALCASA itself is not yet fabricating, ingots are piled up all over the yards, there being few other aluminum fabricators in Venezuela. Later this year, however, ALCASA expects to begin manufacturing plates and sheets, including aluminum foil. Meanwhile, the firm will sell what surpluses it can to Venezuelan factories making extruded tubes, sections, and wire. ALCASA's hot-rolling capacity will be 27,000 tons, while cold-rolling capacity will be 13,500 tons. Total cost upon completion of the second stage, including working capital of $7.7 million, will be $43.8 million.

COMMENT: An ALCASA official mentioned to the reporting officer that the firm has no problem with the Venezuelan Government with respect to its free hand in management.

He said that most of ALCASA's 345 employees, which belong to the company union, are followers of Prieto, while the two unions working down the road at SIDOR favor Gonzalo Barrios for the country's next president.

GURI

Construction of the dam is running 10 months behind schedule. Kaiser engineers expect the first 3 turbines to go into operation about December of this year. At present, the water of the Caroni is sluicing through the seven apertures left for the seven other penstocks to be installed in the next 10 years. The apertures will be blocked off in a few months to build up the pressure required to operate the 3 Japanese turbines (Hitachi--alternators by Westinghouse) already in place, which will generate 525,000 kw. During the next 10 years--that is, progressively throughout the second stage--CVG plans to install the 7 additional turbines, as demand requires, to achieve a total capacity of 1,750,000 kw. by 1977. Eventually, some 14 more turbines will be put into operation, boosting capacity as high as 6 million kw.

There is already one 230,000 volt power line operating from the Macagua Dam; it runs through El Tigre and Barcelona along the coast to Caracas. Macagua, not far from Guri, has been in operation since 1961 with a capacity of 370,000 kw. Now, a new 400,000 volt line is planned to run straight from Guri to Caracas. Bidding has been completed for its 300 towers, which will soon go under construction, but the line is not expected to carry current until mid-1969.

The cost of power supplied from Guri will be .75 centimos per kwh.

COMMENT: A Venezuelan engineer working at Guri told the reporting officer privately that relations between General Alfonzo Ravard, president of CVG, and Richard Baker, Kaiser's chief engineer at Guri, have cooled considerably since the appearance in the local press some months ago of a column about the problems of Contract

Number One by Drew Pearson. The source said that the previous camaraderie and amenities which had existed between Baker and Alfonzo Ravard have faded. End of Comment

Actual outlay to date for the dam under Contract Number One has been $60 million; the initial estimated budget was $80 million.

Ciudad Guayana in General

Ciudad Guayana is the popular name for San Tome de Guayana, which integrates two communities on either side of the Caroni at the confluence of the Caroni and the Orinoco. One of the communities, Puerto Ordaz, did not exist in 1950. San Felix goes back 200 years but as of 1950 contained no more than 4,000 people. Today, Ciudad Guayana boasts a population of 110,000, which is expected to increase to 250,000 by 1975.

The city has come alive since the reporting officer last visited it a year ago. Stores which were empty then are well stocked; numerous small hotels have sprung up; and there is ample evidence of modern life, such as extremely modern supermarkets, and a liberal sprinkling of restaurants, movie theaters, pizzerias, garden-supply stores, and "semi et grand monde" boutiques. The visitor discovers a well-equipped dentist's office next to a travel agency advertising safaris. Late model cars traverse the superhighways which criss-cross the city, reflecting the city planning conducted by such institutions as Harvard and MIT. A perceptible community spirit exists, according to residents. Drawbacks are the heat, which at least is dry, and the dust, which has settled over desiccated top-soil and is unsuitable for growing green grass. Trees, generally sparse anyway, have been indiscriminately uprooted by bulldozers, whose operators have preferred to pay a fine of $222 per uprooted tree rather than clear around it, which may be an indication of how good business is.

Prices are comparable with those in Caracas since reasonably good roads afford land transportation from the centers of production. By virtue of the old axiom that raw materials are cheaper to transport than finished goods, little thought is given to manufacturing consumer goods in Guayana itself. The city's presumptive "breadbasket" is the Orinoco Delta Region, where a system of dikes is being erected to help reclaim 300,000 hectares of alluvial top-soil, carried to the delta by the Orinoco from the llanos. Up to now the delta has been ravaged by yearly floods.

The visitor gets an over-all impression of incipient prosperity and good prospects for the future.

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